

HOUSE BILL REPORT

ESHB 2964

*As Passed House
March 6, 1992*

Title: An act relating to excise taxation of vehicles used for short-term rental.

Brief Description: Modifying rental car taxation and providing funding for traffic safety education programs.

Sponsor(s): By House Committee on Revenue (originally sponsored by Representatives Wang, Winsley, Locke, Peery, R. Fisher and Brekke).

Brief History:

Reported by House Committee on:
Revenue, February 7, 1992, DPS;
Passed House, March 6, 1992, 57-38.

**HOUSE COMMITTEE ON
REVENUE**

Majority Report: *The substitute bill be substituted therefor and the substitute bill do pass.* Signed by 12 members: Representatives Wang, Chair; Fraser, Vice Chair; Brumsickle, Ranking Minority Member; Wynne, Assistant Ranking Minority Member; Appelwick; Carlson; Day; J. Kohl; Leonard; Morton; Rust; and Van Luven.

Minority Report: *Do not pass.* Signed by 2 members: Representatives Belcher and Morris.

Staff: Robin Appleford (786-7093).

Background: The 1991 Legislature enacted Substitute Senate Bill 5611 directing the Legislative Transportation Committee (LTC) and affected state agencies to study the taxation of rental cars. The study is to examine the impacts of sales, business and occupation (B&O), and motor vehicle excise taxes (MVET) on the industry, whether the MVET is equitably applied to rental cars, and whether there are alternatives to the MVET. The committee is to provide an interim report on this issue by January 1, 1992 and a final report by January 1, 1993.

Rental cars are subject to the sales tax at the 6.5 percent state rate, the B&O tax at the 0.471 percent retailing rate,

and the MVET at the 2.2 percent state rate. State and local sales taxes and B&O taxes apply to the value of the contract each time a car is rented. Revenues from sales and B&O taxes are deposited in the general fund.

The 2.2 percent state MVET is paid yearly to the Department of Licensing (DOL) based on the value of each rental car operating in the state. Proceeds of the state MVET are split between the general fund and various transportation accounts. Transit districts may levy a voter-approved local option MVET of up to 0.8 percent to be used for high capacity transportation service. Certain counties may levy a surcharge of 15 percent on the state MVET for high occupancy vehicle service. The total amount generated in a county where both the 0.8 percent and 15 percent are levied may not exceed the amount generated from the 0.8 percent tax. Cities and counties may levy an additional MVET that is credited against the state tax and is to be used for acquisition and construction of mass transit facilities. The rate is 0.725 percent after June 30, 1992.

Application of the MVET to rental cars used interstate has been administratively difficult in recent years. Before 1988, every rental car used in Washington had to be registered in the state, regardless of whether the car was used partially in Washington and partially elsewhere. The only exception was for one-way rentals coming from out of state. In 1988, Washington joined the International Registration Plan (IRP). The IRP is a multi-state agreement originally developed to allow interstate truck fleets to pay license fees based on fleet miles operated in various jurisdictions. A provision of the IRP also allows interstate car rental agencies to allocate their license fees among states. The IRP formula requires that the number of cars registered in the state reflect the percentage of revenue generated in the state. Thus, if a company receives 10 percent of its gross revenue in Washington, it must pay MVET on 10 percent of its vehicles. Of the rental car agencies operating in Washington, nine are interstate companies, and all participate in the IRP.

Although the concept of the IRP is fairly simple, there has been disagreement between DOL and some interstate car rental companies regarding how many vehicles each company should register in Washington. Complaints from in-state car rental companies that most cars on some companies' lots had Oregon license plates lead to a DOL investigation of interstate car rental companies in 1990; Oregon's MVET is considerably lower than Washington's. The investigation revealed that some interstate companies might not be registering as many vehicles in Washington as required by DOL's interpretation of the IRP.

Summary of Bill: Rental cars are exempt from the MVET and a new 5.9 percent sales and use tax is imposed on each rental car contract in place of the MVET. Proceeds from the new tax are deposited and distributed in the same manner as revenues collected under the existing MVET statute.

The tax applies only to passenger cars that are used solely by a rental car business for rental to others, without a driver provided by the rental car business, for periods of not more than 30 consecutive days. The tax does not apply to long-term vehicle leases that are financing alternatives to a traditional car loan, vehicles loaned to customers by automotive repair businesses while the customer's vehicle is under repair, or to taxicabs. Rental car companies must annually register vehicles with DOL in the same manner as under current law.

Authorized local jurisdictions may levy sales and use taxes on rental cars in place of the existing local option motor vehicle excise taxes on rental cars. The ratio of the new local taxes to the new 5.9 percent state tax is to be the same as the ratio of rates for the existing state and local option motor vehicle excise taxes. In addition, any county may impose a 1.0 percent sales and use tax on rental cars. Proceeds of the tax may not be used to subsidize any professional sports team and may be used only for:

- 1) Acquiring, constructing, maintaining, or operating public sports stadium facilities;
- 2) Engineering, planning, financial, legal, or professional services incidental to such facilities; or
- 3) Youth or amateur sport activities or facilities.

Before January 1, 1994 and January 1 of each odd-numbered year thereafter, DOL is to report to the Office of Financial Management and the fiscal committees of the Legislature. DOL, with the assistance of the Department of Revenue, is to provide an updated estimate of the amount of revenue attributable to the new taxes and to exempting rental cars from the MVET.

Fiscal Note: Requested March 4, 1992.

Effective Date: Sections 1-3 take effect June 1, 1992. Sections 4-13 take effect January 1, 1993.

Testimony For: Single parents and low-income families cannot afford the additional cost of driver education programs imposed by last year's budget cut. This program is central to the Office of the Superintendent of Public Instruction's education mission. The current goal of targeting driver education dollars at low-income students is

a worthy one. This is a good tax source because it is paid largely by nonresidents. The rental car industry supports the MVET replacement and driver education portions of the bill. The MVET replacement will take care of current problems with administration of the MVET with respect to the rental car industry.

Testimony Against: The car rental industry is part of the tourism industry, and this bill will harm tourism. More analysis of the dollar impact is needed. A surcharge on each driver's license would be a better funding source.

Witnesses: Merle Stephanson, DOR; Steve Lind, Washington State Traffic Commission; Murray Webb and Sharon Foster, Washington Traffic Safety Education Association; Betty Easling, Parents Without Partners; Karen Davis, Washington Education Association; and Ken Kanikeberg, Office of Superintendent of Public Instruction (all in favor). Gordon Walgren, Car and Truck Renting and Leasing Association; Rick Lucas, Thrifty Car Rental; Chad Harkness, Budget Rent A Car; Rick Goodman, Enterprise Rent A Car; and Dick Hemstad, Alamo Rent-A-Car (partially support).